

**Capital Library Cooperative**

99-8039

Financial Statements and  
Independent Auditors' Report

Year Ended September 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Capital Library Cooperative</b>	County
Audit Date <b>9/30/04</b>	Opinion Date <b>11/8/04</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

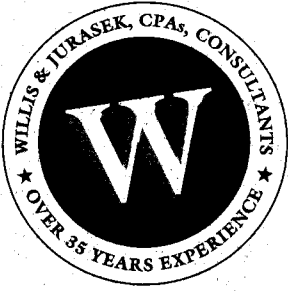
**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Willis &amp; Jurasek, P.C.</b>			
Street Address <b>2545 Spring Arbor Road</b>	City <b>Jackson</b>	State <b>MI</b>	ZIP <b>49203</b>
Accountant Signature <i>Willis &amp; Jurasek, P.C.</i>		Date <b>1/7/04</b>	

## Contents

	<u>Page</u>
Independent Auditors' Report .....	1-2
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	3
Statement of Net Assets and Governmental Funds Balance Sheet .....	4
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance .....	5
Notes to Financial Statements .....	6 – 10
<b>Supplemental Information:</b>	
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual .....	11



## Independent Auditors' Report

To the Board of Directors of  
Capital Library Cooperative

We have audited the accompanying financial statements of the governmental activities and each major fund of the Capital Library Cooperative as of and for the year ended September 30, 2004, which collectively comprise the Capital Library Cooperative's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Capital Library Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and each major fund of the Capital Library Cooperative as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Cooperative has implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of October 1, 2003.

The budgetary comparison information presented on page 11 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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**WILLIS & JURASEK, P.C.**


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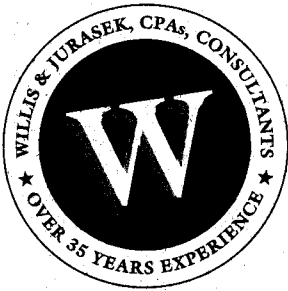
Independent Auditors' Report  
Page 2

The accompanying financial statements do not present a Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2004 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

  
Willis & Jurasek, P.C.

November 8, 2004



**Report on Compliance and on Internal Control over Financial  
Reporting Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Directors of  
Capital Library Cooperative

We have audited the financial statements of the Capital Library Cooperative as of and for the year ended September 30, 2004, and have issued our report thereon dated November 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Capital Library Cooperative's financial statements were free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Capital Library Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

November 8, 2004

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**Capital Library Cooperative**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**September 30, 2004**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets:</b>			
Cash and investments	\$ 527,306	\$ -	\$ 527,306
Due from other governmental units	1,323	-	1,323
Prepaid expenses	14,560	-	14,560
Property and equipment, at cost net of accumulated depreciation of \$41,845	-	17,205	17,205
Total assets	<u>\$ 543,189</u>	<u>17,205</u>	<u>560,394</u>
<b>Liabilities:</b>			
Accounts payable	\$ 7,736	-	7,736
Accrued payroll	3,371	-	3,371
Total liabilities	<u>11,107</u>	<u>-</u>	<u>11,107</u>
<b>Fund Balance:</b>			
Unreserved; undesignated	<u>532,082</u>	<u>(532,082)</u>	<u>-</u>
Total liabilities and fund balances	<u>543,189</u>		
<b>Net Assets:</b>			
Invested in capital assets--net of related debt		17,205	17,205
Unrestricted		<u>532,082</u>	<u>532,082</u>
Total net assets		<u>\$ 549,287</u>	<u>\$ 549,287</u>

See Notes to Financial Statements.

**Capital Library Cooperative**  
**Statement of Activities and Governmental Funds**  
**Revenues, Expenditures, and Changes In Fund Balance**  
**Year Ended September 30, 2004**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures/Expenses:</b>			
Operating:			
Administrative salaries and benefits	\$ 120,316	-	\$ 120,316
Professional services	3,800	-	3,800
Contracted services - fiscal	3,047	-	3,047
Insurance	2,244	-	2,244
Office supplies and materials	6,134	-	6,134
Other	<u>24,034</u>	<u>-</u>	<u>24,034</u>
Total operating	<u>159,575</u>	<u>-</u>	<u>159,575</u>
Programs and projects:			
Interloan	39,596	-	39,596
Delivery and transportation	75,692	-	75,692
Catalog	48,712	-	48,712
Databases and materials	2,029	-	2,029
Title II	21,850	-	21,850
Rent	9,000	-	9,000
Capital outlay	27,466	(20,731)	6,735
Promotion	2,512	-	2,512
Miscellaneous	<u>58</u>	<u>-</u>	<u>58</u>
Total programs and projects	<u>226,915</u>	<u>(20,731)</u>	<u>206,184</u>
Unallocated depreciation	<u>-</u>	<u>8,232</u>	<u>8,232</u>
Total expenditures	<u>386,490</u>	<u>(12,499)</u>	<u>373,991</u>
<b>Program Revenues:</b>			
Operating grants	362,239	-	362,239
Other	<u>33,545</u>	<u>-</u>	<u>33,545</u>
Total program revenues	<u>395,784</u>	<u>-</u>	<u>395,784</u>
<b>General Revenues:</b>			
Interest	<u>4,207</u>	<u>-</u>	<u>4,207</u>
<b>Change in Fund Balances/Net Assets</b>	13,501	12,499	26,000
<b>Fund Balance/Net Assets - Beginning of Year</b>	<u>518,581</u>	<u>4,706</u>	<u>523,287</u>
<b>Fund Balance/Net Assets - End of Year</b>	<u>\$ 532,082</u>	<u>\$ 17,205</u>	<u>\$ 549,287</u>

See Notes to Financial Statements.

## Capital Library Cooperative

### Notes to Financial Statements

#### Note 1 - Summary of Significant Accounting Policies

The Capital Library Cooperative was established under Michigan Public Act 286, 1965, known as the State Aid to Public Libraries Act of 1965 as amended by Public Act 89, 1977. The service area of the Cooperative is all of Ingham, Jackson, Gratiot, Eaton and Clinton Counties and parts of Ionia and Shiawassee Counties. The Cooperative itself does not provide direct service to the public; rather, it aids and assists member libraries in their endeavors to better serve the public. Funds for the Cooperative's operation come from local, state and federal sources.

The financial statements of the Capital Library Cooperative have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Cooperative's accounting policies are described below:

#### Reporting Entity

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Capital Library Cooperative's Board of Directors has oversight responsibility and control over all activities related to the Cooperative. The Cooperative receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Cooperative is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Board has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the authority to approve its budget, the power to designate management, and the ability to significantly influence operations and primary accountability for fiscal matters.

#### Adoption of New Accounting Standards

During the fiscal period 2004, the Cooperative adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and amendments to GASB Statements No. 21 and No. 34, issued June 2001, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Cooperative to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make some changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB No. 34:

Fund balance at September 30, 2003 – Governmental Funds	\$ 518,581
Net capital assets, restated	<u>4,706</u>
Restated net assets – July 1, 2003	\$ <u>523,287</u>

## **Capital Library Cooperative**

### **Notes to Financial Statements**

#### **Note 1 - Summary of Significant Accounting Policies (Continued)**

##### **Government-Wide and Fund Financial Statements**

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets on all governmental-type activities; it has no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function or segment. Program revenues include 1) charges for services to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a specific function or segment and 2) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly recorded among program revenues are reported instead as general revenues.

##### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported on the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Cooperative fund financial statements are reported using the current financial resources measurement focus and a modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Cooperative considers revenues to be available if they are collected within 60 days of the fiscal year end.

The Cooperative reports the following major governmental funds:

**General Fund** – This fund is the Cooperative's primary operating fund. It is the only fund of the Cooperative.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

##### **Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Cooperative reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Cooperative intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

## Capital Library Cooperative

### Notes to Financial Statements

#### Note 1 - Summary of Significant Accounting Policies (Continued)

State statutes authorize the Cooperative to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

#### Capital Assets

Property and equipment are stated at cost. Expenditures which materially extend the useful life of existing properties are capitalized. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits, and bond interest costs during the construction period. Capital assets are defined as assets with an estimated useful life of more than one year and with a unit cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are reported in the respective governmental activities column in the government-wide financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Property, plant, and equipment of the Cooperative are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment; furniture and fixtures	5 - 10

#### Budgets and Budgetary Accounting

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the ensuing fiscal year, the Cooperative Board passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
2. Budgeted amounts in this report are as originally adopted or as amended by the Cooperative Board. Amendments were not material in relation to the original appropriations, which were amended.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

# Capital Library Cooperative

## Notes to Financial Statements

### Note 2 - Cash, Cash Equivalents and Investments

At year-end, the Cooperative's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and investments	<u>\$ 527,306</u>

The breakdown between deposits and investments for the Cooperative is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 15,521
Investments in pooled investments	511,285
Petty cash and cash on hand	<u>500</u>
<b>Total</b>	<b><u>\$ 527,306</u></b>

The deposits of the Cooperative were reflected in the accounts of financial institutions at \$33,385, of which all is covered by federal depository insurance.

The Cooperative's investments at year-end were bank investment pools that had a carrying amount and market value of \$511,285. The Michigan Banking Act regulates the bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

### Note 3 - Capital Assets

Capital asset activity of the Cooperative's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Capital assets being depreciated:				
Equipment	\$ 38,319	\$ 20,731	\$ -	\$ 59,050
Accumulated depreciation:				
Equipment	<u>33,613</u>	<u>8,232</u>	<u>-</u>	<u>41,845</u>
Net capital assets being depreciated	<u>\$ 4,706</u>	<u>\$ 12,499</u>	<u>\$ -</u>	<u>\$ 17,205</u>

Depreciation for the fiscal year ended September 30, 2004 totaled \$8,232. The Cooperative determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

### Note 4 - Leases

The Cooperative leases office space on a month-to-month basis. Rent expense for the year was \$9,000.

### Note 5 - Major Member

The Cooperative consists of 23 member libraries (see Note 1) of which one member constitutes approximately 38% of the total population on which State funding is calculated.

**Capital Library Cooperative**  
Notes to Financial Statements

**Note 6 - Risk Management**

The Cooperative is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Cooperative carries commercial insurance for risks of loss, including employee health and accident insurance, worker's compensation and general liability.

**Supplemental Information**

**Capital Library Cooperative**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget to Actual**  
**Year Ended September 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>Revenues:</b>			
Local sources:			
Interest	\$ 3,900	\$ 3,900	\$ 4,207
Other	<u>33,633</u>	<u>33,633</u>	<u>33,545</u>
Total local sources	<u>37,533</u>	<u>37,533</u>	<u>37,752</u>
State sources:			
Direct state aid	183,200	183,200	183,171
Indirect members	<u>179,100</u>	<u>179,100</u>	<u>179,068</u>
Total state sources	<u>362,300</u>	<u>362,300</u>	<u>362,239</u>
Total revenues	<u>399,833</u>	<u>399,833</u>	<u>399,991</u>
<b>Expenditures:</b>			
Operating:			
Administrative salaries and benefits	121,483	121,483	120,316
Professional services	4,000	4,000	3,800
Contracted services - fiscal	3,900	3,900	3,047
Insurance	3,000	3,000	2,244
Office supplies and materials	7,600	7,600	6,134
Other	<u>25,200</u>	<u>25,200</u>	<u>24,034</u>
Total operating	<u>165,183</u>	<u>165,183</u>	<u>159,575</u>
Programs and projects:			
Interloan	41,200	41,200	39,596
Delivery and transportation	79,400	79,400	75,692
Catalog	49,000	49,000	48,712
Databases and materials	2,750	2,750	2,029
Title II	22,000	22,000	21,850
Rent	9,000	9,000	9,000
Capital outlay	27,700	27,700	27,466
Promotion	3,000	3,000	2,512
Miscellaneous	<u>600</u>	<u>600</u>	<u>58</u>
Total programs and projects	<u>234,650</u>	<u>234,650</u>	<u>226,915</u>
Total expenditures	<u>399,833</u>	<u>399,833</u>	<u>386,490</u>
<b>Revenues Over Expenditures</b>	-	-	13,501
<b>Fund Balance - Beginning of Year</b>	<u>518,581</u>	<u>518,581</u>	<u>518,581</u>
<b>Fund Balance - End of Year</b>	<u>\$ 518,581</u>	<u>\$ 518,581</u>	<u>\$ 532,082</u>



November 8, 2004

Board of Directors  
Capital Library Cooperative  
Jackson, Michigan

We have audited the financial statements of Capital Library Cooperative for the year ended September 30, 2004, and have issued our report thereon dated November 8, 2004. In planning and performing our audit of the general purpose financial statements of the Cooperative, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control.

The Management of the Cooperative is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide the Board with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Board's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluations made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion of the system of internal accounting control of the Cooperative taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Cooperative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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#### Our Responsibility under Generally Accepted Auditing Standards (Continued)

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Cooperative's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

#### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Cooperative are described in Note 1 to the financial statements. The Cooperative adopted the requirements of GASB 34 during the year ended September 30, 2004. No other new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Cooperative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded in the current year.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Cooperative's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.